

**BEARINGER TOWNSHIP
PRESQUE ISLE COUNTY, MICHIGAN**

**Financial Statements
For the Fiscal Year Ended March 31, 2006**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name BEARINGER TOWNSHIP	County PRESQUE ISLE
Fiscal Year End 3/31/06	Opinion Date 5/9/06	Date Audit Report Submitted to State 6/2/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

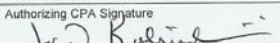
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) J.W. KIELISZEWSKI CPA PC		Telephone Number 989-734-4844	
Street Address 476 NORTH THIRD STREET		City ROGERS CITY	State MI
Authorizing CPA Signature 		Printed Name JW KIELISZEWSKI	License Number 1101010056

BEARINGER TOWNSHIP

TABLE OF CONTENTS

Auditing Procedures Report.....	2
Independent Auditor's Report.....	4-5
Management's Discussion and Analysis.....	6-8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets.....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	11
Statement of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds.....	12-13
Statement of Fiduciary Net Assets.....	14
Statement of Changes in Fiduciary Net Assets.....	15
Notes to Financial Statements.....	16-24
Supplementary Information	
General Fund	
Schedule of Revenues, Expenditures and Changes In Fund Balance – Budget and Actual.....	25-27
Trust and Agency Fund	
Current Tax Collection Fund	
Statement of Changes in Assets and Liabilities.....	28
Letter of Comments and Recommendations.....	29-32

INDEPENDENT AUDITOR'S REPORT

Township Board
Bearinger Township
Presque Isle County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Bearinger Township, Presque Isle County, Michigan*** (the "Township"), as of and for the year ended March 31, 2006, which collectively comprise the Township's basis financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for opinion.

The Township has not recognized real estate tax receivable in its financial statement for the fiscal year ended March 31, 2006.

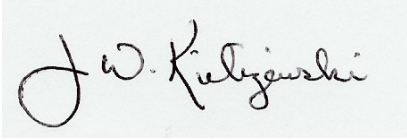
In my opinion, the financial statements referred to above, with the above noted exception, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have

Bearinger Township
Independent Auditor's Report
(Continued)

applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "J.W. Kieliszewski". The signature is written in a cursive style with a large, stylized initial "J".

J.W. Kieliszewski, CPA
May 9, 2006

BEARINGER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at March 31, 2006 totaled \$177,617 for governmental activities. Of the total, \$17,855 represents capital assets, net of depreciation.

Revenues derived from governmental activities were \$125,391 (\$19,243 from program revenues and \$106,148 from general revenues). Overall expenditures for the Township's governmental activities were \$105,344.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) management's discussion and analysis (MD&A), (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year ended March 31, 2006.

The remaining statements are fund financial statements, which focus on the individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Bearinger Township**Management's Discussion and Analysis (MD&A)**

(Continued)

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenditures, regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, additional factors such as tax base changes, facility conditions, and personnel changes may be considered.

Most of the activities of the Township are reported as governmental activities. These would include the operations recorded in the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains only one individual governmental fund, a General Fund, which we consider to be a major fund. This fund is financed primarily by property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals or organizations to which the funds belong. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FUND ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets

The Township's governmental activities net assets increased approximately \$20,047 during the year, to total \$177,617.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Activities

The general activities remained consistent, and the Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, tax collection, street lighting, ambulance service and fire protection.

Capital Asset Administration

At March 31, 2006, the Township had \$50,937 in capital assets, including the town hall, land, computers and other office equipment.

CONTACTING TOWNSHIP MANAGEMENT

The financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Township Clerk at (989) 734-0325.

BEARINGER TOWNSHIP
STATEMENT OF NET ASSETS
March 31, 2006

	Primary <u>Government</u>
	Governmental <u>Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 151,568
Investments	8,409
Capital assets	50,937
Accumulated depreciation	<u>(33,082)</u>
Total Assets	<u>\$ 177,832</u>
<u>LIABILITIES AND NET ASSETS</u>	
Liabilities	
Payroll tax withholding	\$ 215
Net Assets	
Invested in capital assets	17,855
Unrestricted	<u>159,762</u>
Total Net Assets	<u>177,617</u>
Total Liabilities and Net Assets	<u>\$ 177,832</u>

The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended March 31, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Primary</u>
				<u>Government</u>
		<u>Charges for</u>		<u>TOTAL</u>
		<u>Services</u>		
Primary government				
Governmental activities				
General government	\$ 60,576	\$ 19,243	\$	(41,333)
Public safety	40,493	-		(40,493)
Public works	<u>4,275</u>	<u>-</u>		<u>(4,275)</u>
Total governmental activities	<u>105,344</u>	<u>19,243</u>		<u>(86,101)</u>
General revenues				
				79,922
Property taxes				
Intergovernmental				23,168
Unrestricted interest income				3,008
Other				<u>50</u>
Total general revenues				<u>106,148</u>
Change in net assets				<u>20,047</u>
Net assets, beginning of year				<u>157,570</u>
Net assets, end of year			\$	<u><u>177,617</u></u>

The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS

March 31, 2006

		Total Governmental Funds
<u>ASSETS</u>	<u>General</u>	
Cash and cash equivalents	\$151,568	\$ 151,568
Investments	<u>8,409</u>	<u>8,409</u>
Total Assets	<u>\$159,977</u>	<u>\$ 159,977</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Payroll tax withholding	\$ 215	\$ 215
Fund Balances		
Unreserved, undesignated	<u>159,762</u>	<u>159,762</u>
Total Liabilities and Fund Balances	<u>\$159,977</u>	<u>\$ 159,977</u>
Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets		
Fund Balances - Total Governmental Funds		\$ 159,762
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Add: capital assets		50,937
Subtract: accumulated depreciation		<u>(33,082)</u>
Net Assets of Governmental Activities		<u>\$ 177,617</u>

The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES**

GOVERNMENTAL FUNDS

For the Fiscal Year Ended March 31, 2006

	General	Total Governmental
<u>REVENUES</u>	<u>Fund</u>	<u>Funds</u>
Taxes	\$ 79,922	\$ 79,922
State shared revenues	23,168	23,168
Charges for services-sales	19,243	19,243
Interest	3,008	3,008
Other	<u>50</u>	<u>50</u>
Total Revenues	<u>125,391</u>	<u>125,391</u>
 <u>EXPENDITURES</u>		
Legislative	19,056	19,056
General government	45,390	45,390
Public safety	40,493	40,493
Public works	<u>4,275</u>	<u>4,275</u>
Total Expenditures	<u>109,214</u>	<u>109,214</u>
 Revenues Over (Under) Expenditures	16,177	16,177
 Fund Balances, beginning of year	<u>143,585</u>	<u>143,585</u>
 Fund Balances, end of year	<u><u>\$ 159,762</u></u>	<u><u>\$ 159,762</u></u>

The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES**

**GOVERNMENTAL FUNDS
For the Fiscal Year Ended March 31, 2006
(Continued)**

**Reconciliation of statement of revenues, expenditures and
changes in fund balances of governmental funds to statement
of activities**

Net Change in Fund Balances - Total Governmental Funds	\$	16,177
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Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures.
However, those costs are allocated over their useful lives as
annual depreciation expense in the statement of activities.

Add: capital outlay	4,365
Subtract: depreciation expense	<u>(495)</u>

Changes in Net Assets of Governmental Activities	\$	<u><u>20,047</u></u>
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The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
March 31, 2006

ASSETS

Cash	\$ 195
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LIABILITIES

Due to others	<u>195</u>
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NET ASSETS

Fiduciary Net Assets	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Fiscal Year Ended March 31, 2006

ADDITIONS

Property tax collections for other governmental uni: \$1,222,816

DEDUCTIONS

Property tax distributions to other governmental un 1,222,816

Change in net assets -

Fiduciary net assets, beginning of year -

Fiduciary net assets, end of year \$ -

The accompanying notes are an integral part of these financial statements.

BEARINGER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bearinger Township, Presque Isle County, Michigan (the “Township”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

On April 1, 2005, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the Township’s financial statements has shifted from a fund focus to a government-wide focus.

THE REPORTING ENTITY

The Township was organized in 1877, and covers an area of approximately 60 square miles. The Township operates under an elected Board comprised of a Supervisor, Treasurer, Clerk and two Trustees, and provides services to its approximately 800 full-time residents.

In accordance with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit’s general-purpose financial report is the exercise of oversight responsibility over such agencies by the governmental unit’s elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its general-purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental

Bearinger Township

Notes to Financial Statements

(Continued)

activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent ten percent (10%) or more of the respective fund type assets, liabilities, revenues or expenditures. The Township considers all funds to be major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of

the current fiscal period. All other revenue items are considered to be available only when the government receives cash.

The Township reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

The Township reports the following fiduciary fund:

Trust and Agency Fund

The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

ASSETS, LIABILITY AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

Investments

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15-40 years
Equipment	5-10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2006.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent that portion of fund equity for which the Township has made tentative management plans that are subject to change. Undesignated fund balance indicates that portion of fund equity which is available for budgeting in future periods.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPARATIVE DATA

Comparative data for the prior year is not included in the Township's financial statements.

ACCOUNTING CHANGE

In June 1999, the GASB unanimously approved Statement No. 34, previously referenced in these Notes to Financial Statements. Effective April 1, 2005, the Township implemented the provisions of GASB 34. Changes to the Township's financial statements as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations.

Bearinger Township

Notes to Financial Statements

(Continued)

- Government-wide financial statements (Statement of Net Assets and Statements of Activities) prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgets and Budgetary Accounting**

Budgets are adopted by Township officials in compliance with P.A. 621 of 1978 (the Uniform Budgetary Act) for the General and Special Revenue Funds. The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year, commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
5. All appropriations lapse at year-end.

Budgets are to be prepared on the same basis of accounting as the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

P.A. 621 of 1978, Section 18 (1), as amended (MCL 141.421 et seq.) provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the governmental funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2006, the Township incurred the following such excessive expenditures:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<u>EXPENDITURES</u>			
General government			
Assessor			
Office supplies	\$ 750	\$ 954	\$ (204)
Clerk			
Salaries	6,610	6,617	(7)
Treasurer			
Salaries	6,610	6,617	(7)
Data processing	2,500	3,842	(1,342)
Township Hall			
Utilities	1,700	2,062	(362)

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements, banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

All accounts are in the name of the Township and a specific fund. They are recorded in Township records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

The caption on the combined balance sheet relating to cash and cash equivalents and investments of \$159,977 represents deposits in four financial institution located in Presque Isle County, Michigan in varying amounts, as follows:

Cash and Cash Equivalents	\$151,568
Investments	<u>8,409</u>
Total	<u>\$159,977</u>

Bearinger Township

Notes to Financial Statements

(Continued)

Investments are categorized into three categories of credit risk:

- Category 1 – Insured or registered, or securities held by the Township or its agent in the Township's name;
- Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and
- Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end the carrying amount of the Township's deposits were classified as to risk as follows:

	Carrying <u>Amount</u>	Bank <u>Balance</u>
Insured (FDIC)	\$100,000	\$100,000
Uninsured-uncollateralize	<u>59,977</u>	<u>66,764</u>
Total	<u>\$159,977</u>	<u>\$166,764</u>

NOTE 4 – PROPERTY TAXES

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The Township will receive 100% payment for the delinquent Township tax by June 2006, exclusive of delinquent personal property taxes.

The taxable value of the Township totaled \$39,808,077, on which ad valorem taxes consisted of .9142 mills for the Township's operating purposes and .7503 mills for emergency services, raising \$36,394 for operating purposes and \$29,868 for emergency services.

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the governmental activities for the current fiscal year follows:

	Balance 1-Apr-05	Additions	Deletions	Balance 31-Mar-06
Not being depreciated:				
Land	\$ 12,391	\$ -	\$ -	\$ 12,391
Being depreciated:				
Building and building improvements	26,760	2,775	-	29,535
Furniture, fixtures and equipment	<u>7,421</u>	<u>1,590</u>	<u>-</u>	<u>9,011</u>
Subtotal	46,572	4,365	-	50,937
Less: accumulated depreciation	<u>(32,587)</u>	<u>(495)</u>	<u>-</u>	<u>(33,082)</u>
Total	<u>\$ 13,985</u>	<u>\$ 3,870</u>	<u>\$ -</u>	<u>\$ 17,855</u>

Depreciation was charged to the Township's functions as follows:

General government	<u>\$495</u>
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NOTE 6 – PENSION PLAN

The Township provides pension benefits through a defined contribution plan covering to all Board members, which is administered through Travelers Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes seven percent (7%) of employees' gross earnings. In accordance with these requirements, the Township contributed \$1,248 for the year ended March 31, 2006; fees and other charges were \$125.

NOTE 7 – RISK MANAGEMENT

The Township participates in the Michigan Municipal Liability and Property Pool for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan

Bearinger Township

Notes to Financial Statements

(Continued)

Municipal Liability and Property Pool for its general insurance coverage and has no additional liability beyond the premiums made to this plan and the \$1,000 deductible amounts.

The plan has a maximum liability for property of \$164,500; general liability of \$1,000,000; public officials' wrongful acts liability of \$1,000,000; automobile liability of \$1,000,000; crime liability of \$10,000; and \$5,000 - \$25,000 bonding for public officials. The policy cost for the fiscal year ended March 31, 2006 was \$3,538.

Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

BEARINGER TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended March 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/(Neg)
<u>REVENUES</u>				
Taxes				
Property tax	\$ 61,825	\$ 61,825	\$ 66,565	\$ 4,740
State land taxes	<u>13,350</u>	<u>13,350</u>	<u>13,357</u>	<u>7</u>
Total taxes	75,175	75,175	79,922	4,747
State shared revenues	<u>23,300</u>	<u>23,300</u>	<u>23,168</u>	<u>4,747</u>
Charges for services				
Administrative fees	9,750	9,750	14,403	4,653
Collection fees	<u>4,675</u>	<u>4,675</u>	<u>4,840</u>	<u>165</u>
Total charges for services-sales	<u>14,425</u>	<u>14,425</u>	<u>19,243</u>	<u>4,818</u>
Interest income	<u>200</u>	<u>200</u>	<u>3,008</u>	<u>2,808</u>
Other income	<u>500</u>	<u>500</u>	<u>50</u>	<u>(450)</u>
TOTAL REVENUES	<u>113,600</u>	<u>113,600</u>	<u>125,391</u>	<u>16,670</u>

(Continued on next page)

BEARINGER TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended March 31, 2006
(Continued from previous page)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/(Neg)</u>
<u>EXPENDITURES</u>				
Legislative				
Township Board				
Salaries	\$ 3,685	\$ 3,685	\$ 3,469	\$ 216
Planning and zoning	5,340	5,340	4,088	1,252
Board of review	900	900	727	173
Fringe benefits	4,975	4,975	3,845	1,130
Supplies	2,515	2,515	1,520	995
Printing and publishing	1,000	1,000	204	796
Insurance	4,000	4,000	3,538	462
Transportation	<u>2,100</u>	<u>2,100</u>	<u>1,665</u>	<u>435</u>
Total Legislative	<u>24,515</u>	<u>24,515</u>	<u>19,056</u>	<u>5,459</u>
General Government				
Supervisor	<u>6,485</u>	<u>6,485</u>	<u>6,478</u>	<u>7</u>
Assessor				
Contracted services	16,730	16,730	16,046	684
Office supplies	<u>750</u>	<u>750</u>	<u>954</u>	<u>(204)</u>
Total Assessor	<u>17,480</u>	<u>17,480</u>	<u>17,000</u>	<u>480</u>
Clerk				
Salaries	6,610	6,610	6,617	(7)
Office supplies and miscellaneous	<u>650</u>	<u>650</u>	<u>373</u>	<u>277</u>
Total Clerk	<u>7,260</u>	<u>7,260</u>	<u>6,990</u>	<u>270</u>
Treasurer				
Salaries	6,610	6,610	6,617	(7)
Office supplies and miscellaneous	2,500	2,500	1,308	1,192
Data processing	<u>2,500</u>	<u>2,500</u>	<u>3,842</u>	<u>(1,342)</u>
Total Treasurer	<u>11,610</u>	<u>11,610</u>	<u>11,767</u>	<u>(157)</u>

(Continued on next page)

BEARINGER TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended March 31, 2006**

(Continued from previous page)

	Original Budget	Final Budget	Variance with Final Budget Actual Positive/(Neg)
General Government (continued)			
Township Hall			
Utilities	1,700	1,700	2,062 (362)
Repairs and maintenance	2,000	2,000	1,093 907
Total Township Hall	3,700	3,700	3,155 545
Total General Government	46,535	46,535	45,390 1,145
Public Safety			
Fire Contract	16,500	19,000	17,514 1,486
Ambulance / Welfare	23,000	23,000	22,979 21
Total Public Safety	39,500	42,000	40,493 1,507
Public Works			
Streets and highways	3,100	3,100	3,100 -
Sanitation	1,600	1,600	1,175 425
Total Public Works	4,700	4,700	4,275 425
TOTAL EXPENDITURES	115,250	117,750	109,214 8,536
Revenues Over (Under) Expenditures	(1,650)	(4,150)	16,177 25,206
Fund Balances, Beginning of Year	143,585	143,585	143,585 -
Fund Balances, End of Year	\$141,935	\$139,435	\$159,762 \$ 25,206

BEARINGER TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUND – TAX COLLECTION FUND
For the Fiscal Year Ended March 31, 2006**

	Balance <u>4/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>3/31/2006</u>
ASSETS				
Cash	<u>\$ 235</u>	<u>\$1,222,816</u>	<u>\$1,222,856</u>	<u>\$ 195</u>
LIABILITIES				
Due to others	\$ 235	\$ 73,487	\$ 73,527	\$ 195
Due to state	-	230,892	230,892	-
Due to county	-	292,907	292,907	-
Due to schools	<u>-</u>	<u>625,530</u>	<u>625,530</u>	<u>-</u>
Total Liabilities	<u>\$ 235</u>	<u>\$1,222,816</u>	<u>\$1,222,856</u>	<u>\$ 195</u>

June 2, 2006

Honorable Township Board
Bearinger Township
Presque Isle County, Michigan

I wish to express my appreciation for the fine cooperation extended to me during the audit of your Township's Financial Statements.

As required, I have submitted online to the State Treasurer's office a PDL formatted copy of the audited Financial Statements, which included this Letter of Comments and Recommendations as well as the Auditing Procedures Report. The remaining copies of the audited Financial Statements are herewith submitted. At one of your next regular Township Board Meetings the audited Financial Statements should be formally accepted and the copy marked for this purpose made a part of your Minute Book. I will plan to attend that meeting and be prepared to make a brief presentation on the audit.

We conducted our audit of the Financial Statements of the Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Bearinger Township

Letter of Comments and Recommendations

(Continued)

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in my opinion."

In the audit process, I gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. My understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Prior to this audit I obtained written permission from Township officials to disclose immediately any findings of suspected fraud and/or embezzlement directly to the Deputy State Treasurer. During the course of the audit I noted no instances of suspected fraud and/or embezzlement.

Auditing standards call for us to inform you of other significant issues such as, but not limited to: accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; significant audit adjustments that may not have been detected except through the auditing procedures we performed; disagreements with management regarding the scope of the audit or application of accounting principles; consultation with other accountants; major issues discussed with management prior to retention; and difficulties encountered in performing the audit. We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

The following comments and recommendations are submitted in the interest of improved accounting procedures, closer compliance with the various state and federal regulations and requirements.

Comments and Recommendations Pertaining to the 2005-06 Audit Only**1. General Ledger**

Currently, the Township has some computerization of the accounting records and does a good job of reviewing expenditures for budgetary purposes. However, improvements in utilization of the "Uniform Chart of Accounts," a complete

Bearinger Township

Letter of Comments and Recommendations

(Continued)

general ledger where account detail can be accessed for management and review purposes, preparation of financial statements for presentation where assets, liabilities, income and expenses are all presented, is necessary. As always, the cost of these functions in both time and money needs to be considered by the Board.

Recommendation

I have contacted Pontem Software, the same vendor that provides software to the County of Presque Isle for their tax collection system, and believe a solution may be present. The representative indicated that the general ledger module's first year cost is \$1,037, with annual maintenance cost of \$239. This would provide a good "after the fact" general ledger system compliant with the State of Michigan's Chart of Accounts. An additional module for the accounts payable system would be the only add-on worth considering at this time. Its additional cost is \$829 for the first year with annual maintenance fees of \$191. With these products you would get unlimited telephone support. I have recommended that this software be presented at one of your tax software training sessions. I believe the product will offer some solutions to the Township at a price I feel is reasonable based on my annual software costs. Pontem can be contacted at (888) 742-2378.

2. Public Act 621

The Township is in technical violation of one part of the Uniform Accounting and Budgeting Act as disclosed in the Notes to the Financial Statements. However, in all cases, sufficient fund balanced or increased revenues made the effect immaterial. The over-expenditures were the result of not making sufficient budget adjustments for the final month of operation, improper expense classification or effects of year-end audit adjustment.

Recommendation

In all cases the budget has fulfilled its operational purpose as management has analyzed the various computer reports and any operating deficits resolved. However, to comply fully with the technical aspects of *P.A. 621*, it is suggested that the final review of the budget status report, currently being done in preparation of the next fiscal year's budget, result in a final amendment of the existing budget.

Acceptance by Township Board of Audited Financial Statements

It is recommended that these audited Financial Statements and Recommendations be accepted by the Township Board by a motion similar to the following:

Bearinger Township

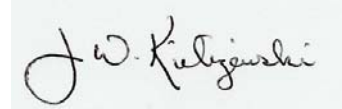
Letter of Comments and Recommendations

(Continued)

“Moved by _____ and seconded by _____, that the Township 2005-06 audited Financial Statements be accepted as presented and that, insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed.”

As stated, I will plan to attend one of your next regular Township Board Meetings. Please let me know of your preferred date as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "J.W. Kieliszewski", is centered within a light gray rectangular box.

J.W. Kieliszewski